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PROPOSED SENATE ACTION ON AIR MAIL SUBSIDIES

By EDWIN C. JOHNSON, *United States Senator*

RECOGNIZING the necessity for assisting an infant and dynamic industry which had been in financial straits from its earliest days, the Congress in 1938, through the adoption of the Civil Aeronautics Act, authorized the payment of subsidies, in the form of air-mail pay, to meet the legitimate financial needs of the certificated air carriers. This was done deliberately and without reservation. As a result, today, the United States has the finest air transportation system in the entire world, serving approximately 600 cities in the United States on 16 trunk routes, 17 feeder lines and 2 helicopter services.

Since 1938 there has been a tremendous advance in the airline industry. In the postwar years, the expansion appeared wild and uncontrolled, passenger load factors, profits and security values dropped, and there was much criticism of airline management. The increase in plane miles flown with the larger capacity of aircraft since 1945 has resulted in a 100 per cent increase in revenue passenger-miles flown and in air cargo carried; a three-fold increase in seat-miles available; and a somewhat smaller increase in mail ton-miles. Last year alone the domestic airlines carried approximately 13 million passengers. However, this increase in business did not bring prosperity.

When I took over the chairmanship of the Interstate and Foreign Commerce Committee at the commencement of the 81st Congress our air transportation industry was still suffering serious financial reverses, and the subsidy support then being authorized by the Civil Aeronautics Board was inadequate and uncertain. The cost of doing business increased as advanced transport aircraft were acquired, for example, wages generally increased 81% since 1941, gasoline 30% and materials went up from 30 to 90%. The great increase in commercial air transportation plus the spiraling cost of doing business piled up losses, not profits, and the industry showed signs of being more and more dependent upon the Government for subsidy backing in the postwar period.

As soon as the 81st Congress was organized I sponsored Senate Resolution 50, which authorized our Committee to investigate the operational efficiency and the financial stability of the entire airline

industry, as well as pending and equally grave problems affecting land and water forms of transportation. We began aviation hearings on April 12, 1949 and continued through June, and heard more than 79 witnesses representing all branches of the Government and industry that could help us understand the basic reasons for the financial losses and increased need for federal subsidies at a time when the entire industry appeared to be enjoying phenomenal growth, with improved equipment, greater safety and greatly increased passenger and cargo traffic.

MAIL PAYMENTS INVOLVE MILLIONS

Air-mail payments are designed, under the Civil Aeronautics Act, to meet the over-all financial needs of the carriers. The increase in air-mail pay has been substantial. In 1946 air-mail pay to all air carriers was \$46 million. It increased to \$112 million in 1949. In addition, in 1949 the carriers received \$30 million in retroactive mail pay to cover their losses before 1949.

The task of measuring the financial needs of individual carriers, after judging in retrospect the economy and efficiency of management, has been a colossal task. Consequently, the Civil Aeronautics Board has fallen far behind in keeping abreast of this phase of its work and has resorted to the expediency of authorizing temporary rates which are subject to subsequent adjustment. Today, the Board has a phenomenal backlog of undisposed petitions for increased mail pay. If the Board should recognize all of the claims filed by the certificated air mail carriers, the staggering sum of \$229 million would have to be appropriated to cover mail payments requested to date. I do not believe that they will receive this amount; I merely mention it to indicate the gigantic task that confronts the CAB and the tremendous sums which are involved. Without a dependable and comprehensive method available to identify what portion of that \$229 million would be earned from mail service and what portion pure subsidy something bordering on utter chaos may be anticipated. One of these days a blow-up may be expected which will hit commercial aviation a solar plexus blow.

Only a few die-hards have contended that the \$112 million paid out in 1949 was not in part a subsidy, that is, a payment by the Government to promote air transportation over and above the fair and reasonable cost of rendering air mail service.

When the Committee in Congress asked how much of this air-mail pay was for subsidy they were told, and our Committee was told throughout the hearings in 1949, that the law did not require the Civil Aeronautics Board to separately identify compensatory mail pay from subsidy payments, and that no one could say what proportion of this \$112 million was in fact subsidy. Estimates were made before the Committee that the subsidy ranged between 40 and 60 per cent. No one was sure and the Civil Aeronautics Board said they were not in a

position to make the determination. This was disturbing to the various Committees of Congress who have seen increasing demands made for deficiency appropriations to cover the higher mail pay authorized by the Civil Aeronautics Board.

While drastic increases in mail payments made by the CAB in the last few years have saved the financial "skins" of many certificated airline companies and enabled them to provide a splendid air service the justification for the continuing call on the Treasury for more and more money has been neither convincing nor satisfactory.

PRESIDENT FAVORS SEPARATION

All of the Government agencies concerned, various Congressional Committees, private citizen groups and most of the aviation industry, who came before our Committee recognized the desirability of finding a new clear cut method of paying airlines for the carriage of mail. This concern about divorcing compensatory mail pay from subsidy had been expressed year after year by many people and various groups, and even by the President of the United States, but until recently nothing of a concrete nature had been done to specifically provide for a solution.

As a result of the hearings before our Committee last year, the need to separate fairly and intelligently compensatory air-mail pay from airline subsidies emerged as the foremost economic issue confronting the Congress to improve our air transportation system. Thus, last summer the staff of our Committee began to study this problem intently. We asked the Civil Aeronautics Board to assist us, but found the Board preoccupied with setting temporary mail rates and other cases.

Our Committee engaged the services of Ernst & Ernst, an outside independent nationally-known firm of accountants and management consultants to give us some minor assistance as a demonstration on how to go about the gigantic problem of determining what the rates of mail compensation should be. We asked them to provide the Committee with an analysis of the standards and techniques that might be used in actually separating subsidy from mail pay and to make a pilot field survey of airline operations and costs. It was hoped that they would demonstrate the feasibility of their technique by applying it to a specific competitive route such as Washington and Chicago, but Ernst and Ernst insisted that it was impractical to apply to any route or station without more extensive technical cost studies than we had then authorized. The report submitted by them as of February 1, 1950 indicated that a great deal of time and thought had been given to the various problems involved and was most helpful and provocative.¹

DEFENSE WILL NOT UNDERWRITE SUBSIDY

We called attention to the language of the Civil Aeronautics Act of 1938, which directed the Board to consider the national defense as

¹ For text of report, see 17 J. Air L. & Com. 86 (1950).

well as the postal and commercial need of the country in authorizing air service and asked the Department of National Defense to tell the Committee whether any portion of airline subsidies could be justified on grounds of the national defense requirements. The National Defense Department made an extensive review over a period of many months of its interest in civil aviation, and on January 30, 1950 testified that they would not be justified in underwriting any portion of airline subsidies; that the airlines, like the railroads and truck and bus lines, were vital to our economy and national defense, but no more vital, and that it was impracticable to fix, in terms of dollars, the amount of airline subsidy that could justly be charged to the national defense aspect.

At the same time, we undertook a study of airline station costs, which was used as the basis of my recommendation calling for a unique approach to the manner in which air-mail pay may be separated from subsidy. It is interesting to note that in conducting this study the staff was able to ascertain that out of a total of 482 cities during the fiscal year of 1949 almost 50 per cent of all domestic passengers carried were enplaned at 12 cities. Out of a total of 13,916,572 passengers carried, these cities enplaned 6,881,341, or out of 482 cities, 50 cities generated approximately 76 per cent of all the traffic, *i.e.*, 10,692,171 out of a total of 13,916,572 were enplaned at these communities.

During all the considerations and deliberations by the Committee, three objectives were kept in mind in our efforts to arrive at a dependable and constructive standard for the separation of subsidy from mail pay.

First, bring to light in the interest of the taxpayer the cost and fair value of the air-mail service now rendered and to establish a reasonable rate for that service on the same basis as other similar services rendered to the Government. This would transfer out of the Post Office Department all responsibility for financing the continued development of our air transportation system, a system which has outgrown the original conception. The Post Office is entitled to know and pass the true cost of air-mail service and to budget its expenses accordingly.

Second, subsidy separation would provide the taxpayer with the knowledge of the exact amount he is paying to the commercial air carriers to render the commercial and national defense services that the CAB has certificated each to render. The public and the Congress are entitled to know for what this subsidy is being paid and to whom and for what. They alone should judge the value of the contributions made by these enterprises to commerce and the general welfare. To protect private investments in the airline industry other than to promote a struggling industry is not the public responsibility.

Third, subsidy separation would establish the basis upon which the airlines of the United States can expect to enjoy financial help and eventual stability with assurance and honor. To mix mail pay with

subsidy has been a sloppy and wasteful way to do business. Separation of subsidy would restrict the power of the CAB to interfere unduly with airline management.

SHORT HAUL IS COSTLY

A careful analysis of the conflicting opinions presented to the Committee revealed a common denominator that goes far to explain and justify the fundamental needs of airline subsidies. We found general agreement that airlines carrying only long-haul business and serving only a few high-density cities could operate profitably without Federal subsidy, or in other words, that the certificate requirement compelling an airline to serve a large number of small cities and to carry predominantly short-haul traffic absorbed most of the profits earned in the long-haul high-density business, and was the basic reason subsidy was required. Our studies showed that the need for subsidy increased directly in proportion to the number of small cities the airline had to serve. Thus the short-haul feeder lines understandably have the greatest requirements for subsidy and the long-haul transcontinental carriers the least.

The commercial traffic unbalance of the various routes is clearly the basis of this kind of subsidy. It is not necessarily a reflection on management. The need is clearly not a subsidy to the airlines. The airline is a quasi-public utility which renders a public service for a fair return. The subsidy goes ultimately to the passengers, cargo shippers, and air-mail patrons of the cities certificated by the CAB to enjoy airline service who do not generate sufficient revenue to pay for that service. If management economy and efficiency are up to par, the subsidy need come squarely from the service rendered such cities which the Federal certificate of public convenience and necessity requires.

INTERIM REPORT

Pursuant to an understanding I had reached with the Senate Appropriations Committee during the closing days of the first session of this Congress, I presented on May 5 of this year the station by station analysis of the air-mail subsidy to them.² I pointed out the true basis of airline subsidies which I have just described and stated that it is my considered judgment that a just method must be devised to pay fair compensation for the speedy carriage of mail.

Furthermore, I recommended that government support to each airline over and above just compensation be specifically identified on a community service basis and be justified to Congress in the annual CAB request for an appropriation.

To demonstrate what I recommended, I gave the Appropriations Committee a tabulation of airline community subsidies which the staff

² *Separation of Air-Mail Pay from Subsidy*, Committee Print, dated May 5, 1950, see page *infra*.

had prepared to show the government aid required to support the domestic trunk and feeder line services which each community had actually received during the fiscal year 1949. I left out the international carriers because they involve additional complicating factors. This table was constructed with a generous compensatory mail pay rate and with the most reasonable allocation of airline revenues and expenses to each city served that could be made from the public records available to the Committee.

Neither the allocation formula nor the figures are intended to be final, but merely to illustrate a new approach to this stubborn problem. The Civil Aeronautics Board should be required to request an appropriation to cover whatever subsidy is due the airline on such a formula. In other words, the CAB would pay the airline to serve certain cities and would not underwrite their whole operation as at present.

INDUSTRIES, CITIES, CAB APPROVE

As far as I can ascertain, this recommended approach has been well received by the airline industry and by the cities once it is understood and known that it is not intended that this Federal subsidy should be paid by the cities. I cannot see why anyone would oppose it. Even some of the individual members of the Civil Aeronautics Board have given their endorsement. This approach is new, sound and constructive, but it needs to be refined and developed until it is absolutely accurate. Unless its perfection is sympathetically and energetically prosecuted, however, it could very easily be lost in a mass of red tape, dilatory techniques and confusion.

In order to perfect this station cost formula to absolute accuracy, a staff of competent engineers will be required to make field studies and cost analyses of airline operations. Accurate and detailed analysis is required before either a satisfactory compensatory mail pay for separate routes or systems can be devised or the distribution of revenue and expenses to communities can be allocated.

When this task is accomplished, Congress will have done much to put this vital and growing air transportation system of ours on a sound financial basis. It will demonstrate to Congress in a simple and understandable manner the route patterns of the country and the nature and quantity of air service that the CAB has authorized. In this manner, a sound air transportation system designed to meet the present and future needs of the commerce, the postal service, and the national defense can be developed and stabilized with a clear understanding of what we are doing.